

Abstract: Many people think about moving to another state. However, it's important to consider the tax ramifications before doing so. This article urges readers to identify all applicable taxes in a destination state and recommends being prepared to meet the legal requirements for establishing domicile.

Don't move ... until you've considered the tax implications

With so many people working remotely, it's become common to think about moving to another state — perhaps for better weather or to be closer to family. Many retirees also look at across-the-border moves to better control living expenses. If you've found yourself harboring such notions, be sure to consider taxes before packing up your things.

More to think about than income tax

It may seem like a no-brainer to simply move to a state with no personal income tax, but you must consider *all* taxes that can potentially apply to residents. In addition to income taxes, these may include property taxes, sales taxes, and estate or inheritance taxes.

If the states you're considering have an income tax, look at the types of income they tax. Some states, for example, don't tax wages but do tax interest and dividends. And some states offer tax breaks for pension payments, retirement plan distributions and Social Security benefits.

Ready, set, home!

If you make a permanent move to a new state and want to escape taxes in the state you came from, it's important to establish legal domicile in the new location. Generally, your domicile is your fixed and permanent principal residence and where you plan to return, even after periods of living elsewhere.

Each state has its own rules regarding domicile. You don't want to wind up in a worst-case scenario. Two states could claim you owe state income taxes if you established a domicile in a new state but didn't successfully terminate the domicile in an old one. Additionally, if you die without clearly establishing domicile in one state, both the old and new states may claim that your estate owes income taxes and any state estate tax.

The simplest and most obvious way to establish domicile is to buy or lease a home in a new state and sell your previous home (or rent it out at market rates to an unrelated party). Then, change your mailing address on insurance policies and other essential documents. Also, get a driver's license in the new state and register your vehicle there. Take these steps as soon as possible after moving.

Check it out before you decide

Research and contact us when looking into whether the grass is greener in another state for tax purposes. We can help you avoid unpleasant surprises.